EBA Regular Use

European Banking Authority

2025 European Supervisory Examination Programme

Supervisory convergence mandates

Article 1 (5) (g) of the EBA founding Regulation	• Enhance **supervisory convergence** across the internal market
Article 29 of the EBA founding Regulation	• Build a **common Union supervisory culture** and **consistent supervisory practices** • Ensure **uniform procedures** and **consistent approaches** throughout the Union
Article 107 of the CRD	• **Report** annually to the European Parliament and Council on the degree of convergence of supervisory practices

Key topics in 2020 – 2024 EBA ESEP

2024

- Liquidity and funding risk
- Interest rate risk and hedging
- Recovery operationalisation

2023

- Macroeconomic and geopolitical risks
  - RU/UA conflict & Covid pandemic impact
  - Interest rate rises and inflation risk
- Operational and financial resilience
  - ICT risks and risk data aggregation
  - Staging and provisioning, stress testing capabilities
- Transition risks
  - Digital transformation
  - ESG risks
- ML/TF risks in SREP and internal controls and governance
  - ML/TF risks in SREP
  - Internal controls and governance in the context of sanctions

2022

- Impact of the COVID-19 pandemic on asset quality and adequate provisioning
- ICT security risk and ICT outsourcing risk, risk data aggregation
- Digital transformation and FinTech players
- ESG risk
- AML/CFT

2021

- Asset quality and credit risk management
- ICT and security risk, operational resilience
- Profitability and business model
- Capital and liability management

2020

- Loan origination standards
- ICT risk and operational resilience
- Profitability
- Capital and liability management
- ML/TF and other conduct risk for prudential supervisors

Union-wide strategic supervisory priorities (USSPs)

USSPs for the 2024-2026 period

1

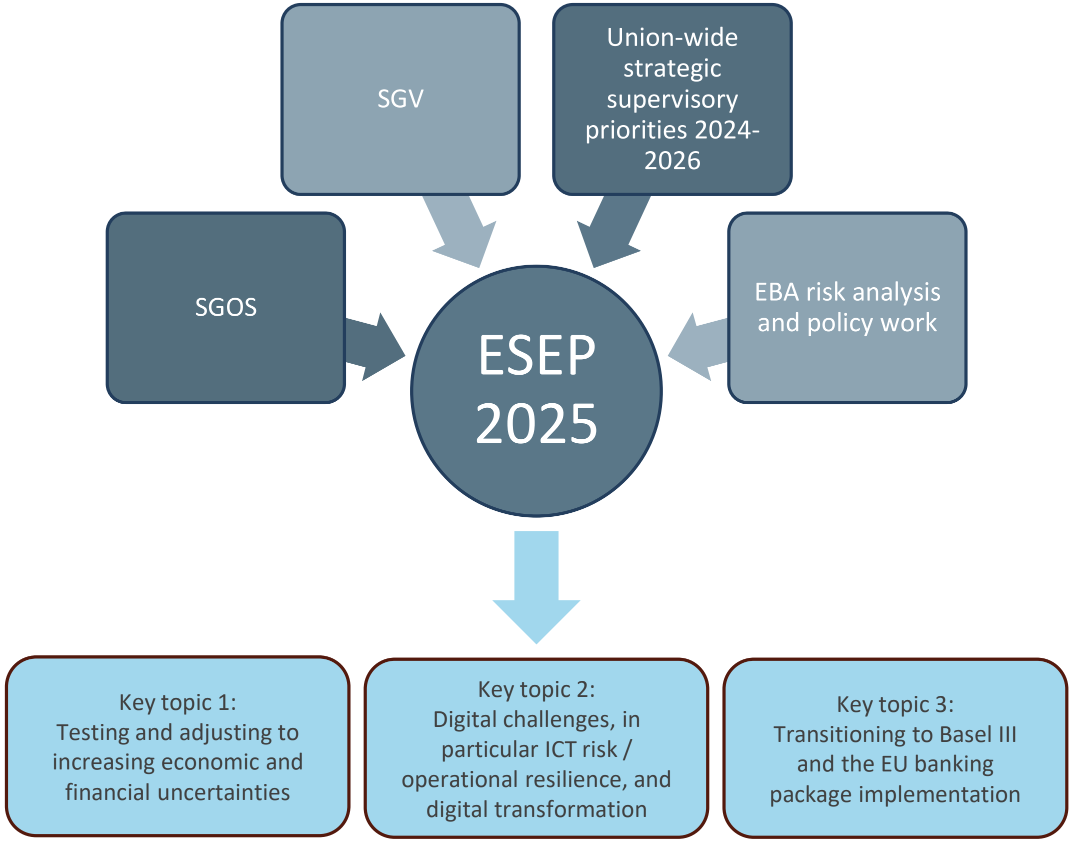
Monitoring financial stability and sustainability in a context of increased interest rates

2

Developing an oversight and supervisory capacity for DORA and MiCAR

2025 ESEP – Input parameters

- The ESEP is part of the EBA's supervisory convergence toolkit.
- The ESEP identifies key topics for heightened prudential supervisory attention to:
  - provide supervisors with a single set of priorities that should be implemented across Europe; and
  - drive convergence in the related supervisory work.
- The 2025 ESEP is informed by different sources, among which CAs input and EBA's work (risk analysis and policy developments).



ESEP 2025 – Key topic 1: Testing and adjusting to increasing economic and financial uncertainties

Background:

- Global uncertainties are persistently elevated
- Potential impact on financial institutions from relevant developments
- While no significant signs raising concerns at the moment, banks' asset quality may deteriorate going forward
- Institutions are expected to be prepared to withstand emerging risks and shocks from a financial perspective

Supervisors are expected to assess:

- **Institutions' risk management framework** and risk **management processes**, including **risk appetite**, **stress testing framework**, to adequately assess, monitor and mitigate, if needed, the impact of relevant events/developments.
- **Institutions' stress testing capabilities** and whether stress testing is well **embedded into their governance structure** and effectively channeled into management actions, in particular with regard to identified limitations, vulnerabilities and shortcomings.
- **Institutions' contingency and recovery plans** that will enable them to react to severe scenarios.
- **The impact** of the rising geopolitical risks and quickly changing macroeconomic environment, especially for certain more vulnerable portfolios (such as corporate real estate, SMEs and leveraged finance), while continue promoting a high-quality and consistent application of the IFRS 9 framework.

ESEP 2025 – Key topic 2: Digital challenges

Background:

- Risks related to **ICT and cyber** are among the **most prominent** ones today (EBA's risk assessment report, IMF Global Financial Stability Report).
- **New legislation** on digital operational resilience (DORA) becomes applicable from 17 January 2025 onwards.
- **Digital transformation**, that was included among the key priorities in the 2023 ESEP, remains high in the agenda of the EBA and competent authorities.

Expectations towards supervisors:

Expectations towards supervisors are identified around the main elements of DORA:
- **ICT risk management**
- **ICT-related incident reporting**
- **Digital operational resilience testing**
- **ICT third-party risk management**

Additional expectation on digital transformation strategy:
- Assess the ability of the **management function to collectively develop and drive the institution's digital strategy**, the impact of the **transformation on the institutions' business model and risk profile**.

Key regulatory products:

- 1st batch of regulatory products supplementing DORA (published in January 2024)
- 2nd batch of regulatory products supplementing DORA (published in July 2024)

ESEP 2025 – Key topic 3: Transitioning towards Basel III and the EU banking package implementation

Background:

- Banking package implementing Basel III includes a **full revision of the CRR/CRD** with regard to prudential metrics and encompasses various innovations in the prudential framework.
- **Institutions' information systems and capital planning become even more crucial in light of the new EU regulatory package implementation**.
- 2023 ESEP implementation outcome with regard to **institutions' data aggregation capabilities**.

Expectations towards supervisors:

- Assess institutions' ability to **understand, calculate and comply with the new banking package** requirements.
- **Review institution's capital planning abilities**, in particular the capital adequacy of banks and banks' capital management processes.
- **Assess institutions' ability to design**, **build** and **maintain data architecture** and **IT infrastructure** which **fully supports their risk data aggregation capabilities** and risk reporting practices not only in **normal times**, but also during times of **stress** in line with the EBA SREP GL and Basel Principles.
- **Consider escalating their supervisory actions** and measures in case of **longstanding material deficiencies in risk data aggregation** and **risk reporting**, in particular when insufficient progress is identified for closing gaps with respect to supervisory expectations and compliance with the regulatory framework.
- **Engage into a thorough dialogue** with institutions to assess institutions' **management ability to clearly identify and ensure the quality of target data** and the resulting requirements for **data and IT governance**, processes, and systems in light of the implementation of the new regulatory package.

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